1989

Financial Report

ROBERT F. NIXON • TREASURER OF ONTARIO

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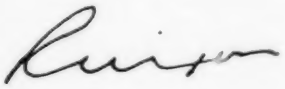
Treasurer's Statement

I am pleased to present the 1989 Financial Report of the Province of Ontario. It highlights the major aspects of Ontario's finances and presents summarized financial statements of the Province for the fiscal year ended March 31, 1989. The 1988-89 Public Accounts, which will be submitted to the Ontario Legislature later this year, provide more detailed financial information.

For the sixth consecutive year, real growth in Ontario exceeded 4%, making the current economic expansion the longest and strongest since the 1961-73 expansion. The deficit at $1,479 million is the lowest since 1980-81.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario M7A 1Y7, telephone (416) 965-5273.



Robert F. Nixon
Treasurer of Ontario

Toronto, August 1989

Ontario

The Year in Review

Highlights ($ millions)	1988-89	1987-88
Revenue	37,256	32,453
Expenditure	38,735	34,942
Deficit	-1,479	2,489
Other accounts (net)	1,429	1,203
Net cash requirements	50	1,286
Gross domestic product*	246,558	224,674

* Calculated on a calendar year basis (subject to subsequent adjustments as federal statistics become available.)

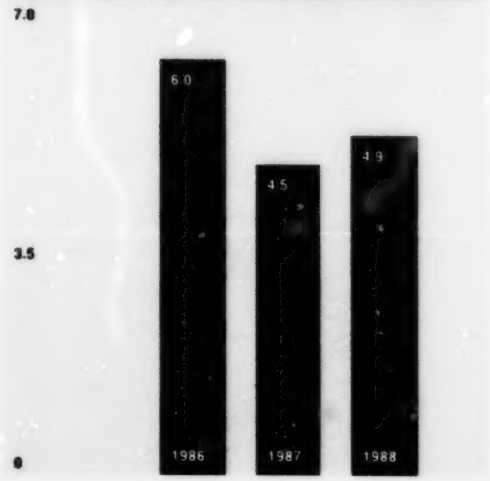
Ontario's economy

In 1988, Ontario's economy continued its strong performance. This was due to healthy advances in consumer and business spending. Recent trends in provincial economic indicators are reflected in the following graphs and commentary.

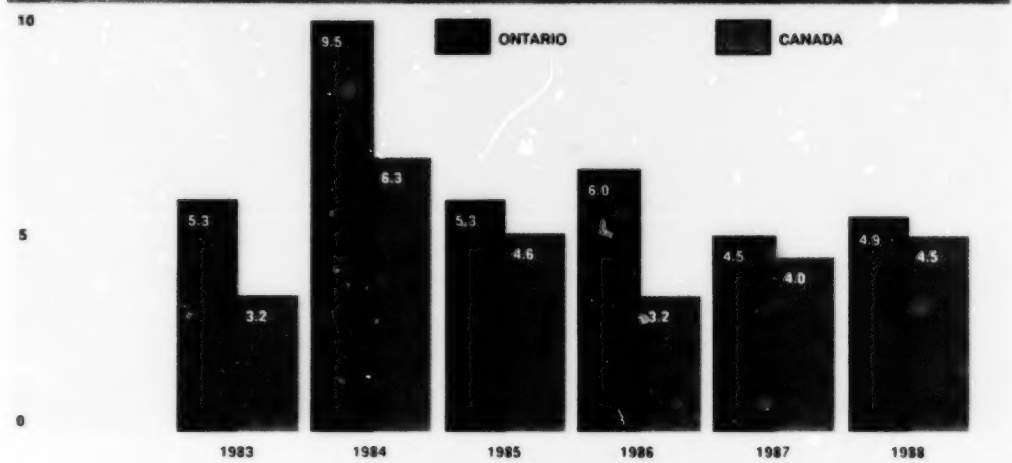
Real gross domestic product (GDP) growth

GDP measures the percentage change in the value of all goods and services produced in Ontario, adjusted for inflation. Real growth GDP is a key measure of the productive health of the provincial economy. In 1988, real GDP rose 4.9 per cent.

Graph 1
Real GDP growth



Graph 2
Comparative growth in real GDP - Ontario & Canada 1983 to 1988



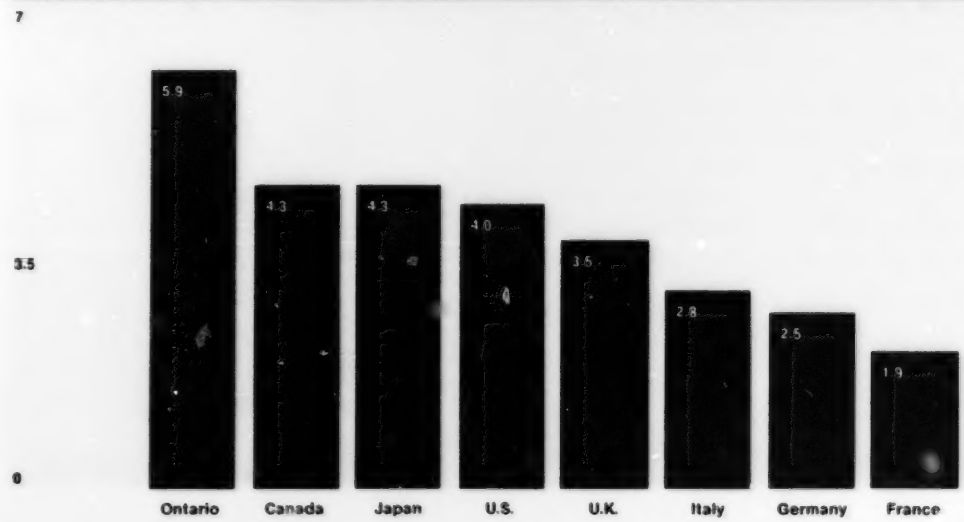
Growth in real GDP

Real GDP in Ontario has risen by more than 40 per cent over the past six years. During this time, growth in the Ontario economy has outpaced growth in the rest of Canada.

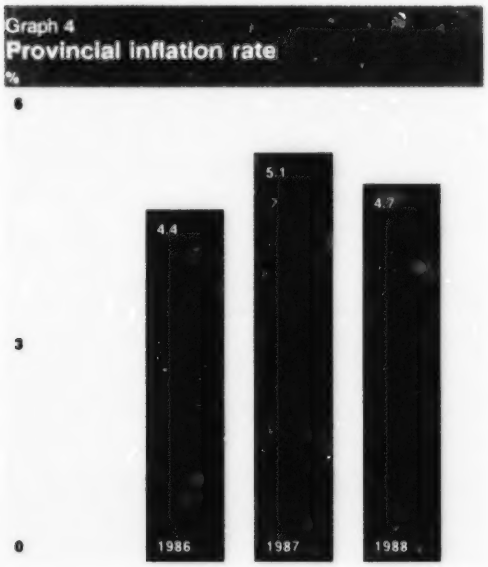
International comparison of real output growth

During the six consecutive years of economic growth in Ontario, real output has outpaced all the major industrial nations by growing at an average 5.9 per cent annually.

Graph 3
Comparative real output growth, 1983-1988
(6 year annual average)



Provincial rate of inflation



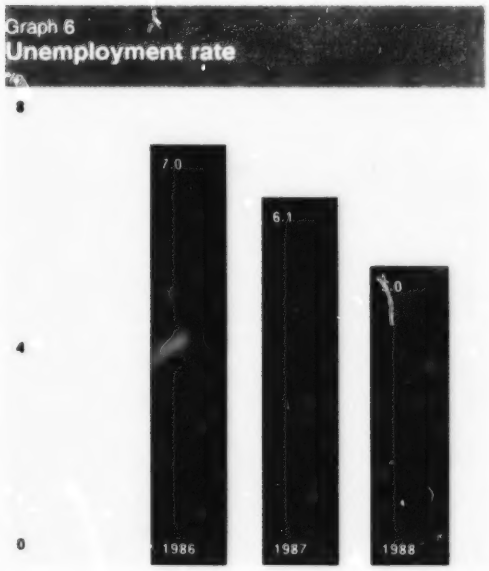
The rate of inflation in Ontario, in terms of the Consumer Price Index, has been moderate throughout the period of economic expansion. In 1988, inflation increased by 4.7 per cent, down from 5.1 per cent for 1987.

Growth in employment

Ontario's strong economic growth has led to substantial gains in employment, which grew by 3.7 per cent in 1988.

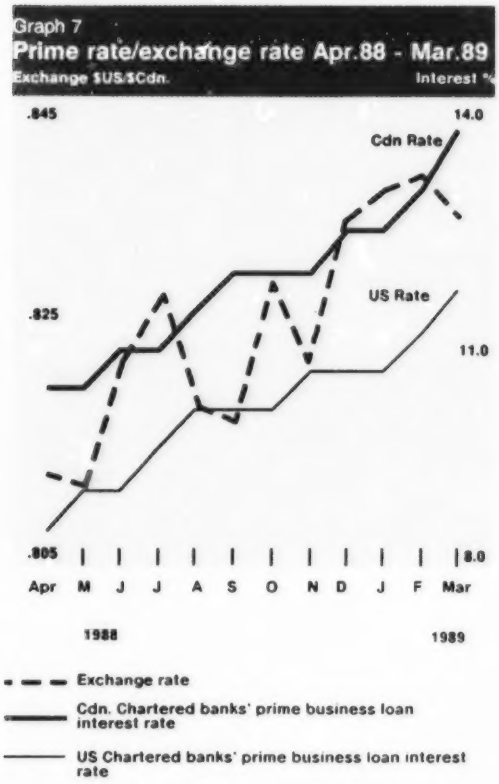
Unemployment rate

The average annual unemployment rate continued to decline, dropping to 5.0 per cent in 1988 from 6.1 per cent in 1987.



Interest rate and exchange rate

During fiscal 1988-89, the Canadian dollar continued to appreciate against the U.S. dollar. The prime rate in Canada rose steadily throughout the fiscal year to 13.5 per cent from 9.8 per cent.



Revenue highlights

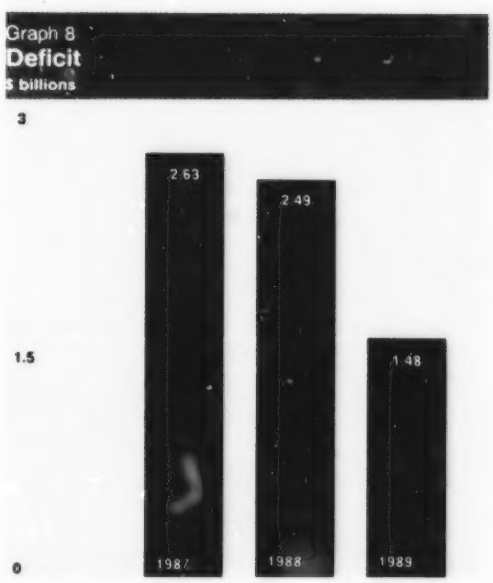
Revenues reached $37,256 million in 1988-89, an increase of $913 million above the Budget forecast. Almost all this increase can be attributed to in-year adjustments to the federal forecast of personal income taxes for current and prior years.

Expenditure highlights

Expenditures for 1988-89 were $38,735 million or $848 million above the Budget plan. $823 million of this increase is due to advance payments of 1989-90 entitlements for capital assistance to colleges, universities and school boards and for unconditional grants to municipalities.

Deficit

The deficit for the year ended March 31, 1989 was $1,479 million, $65 million below the Budget estimate. Graph 8 reflects the decline of $1,155 million in the deficit since 1987.



Revenue

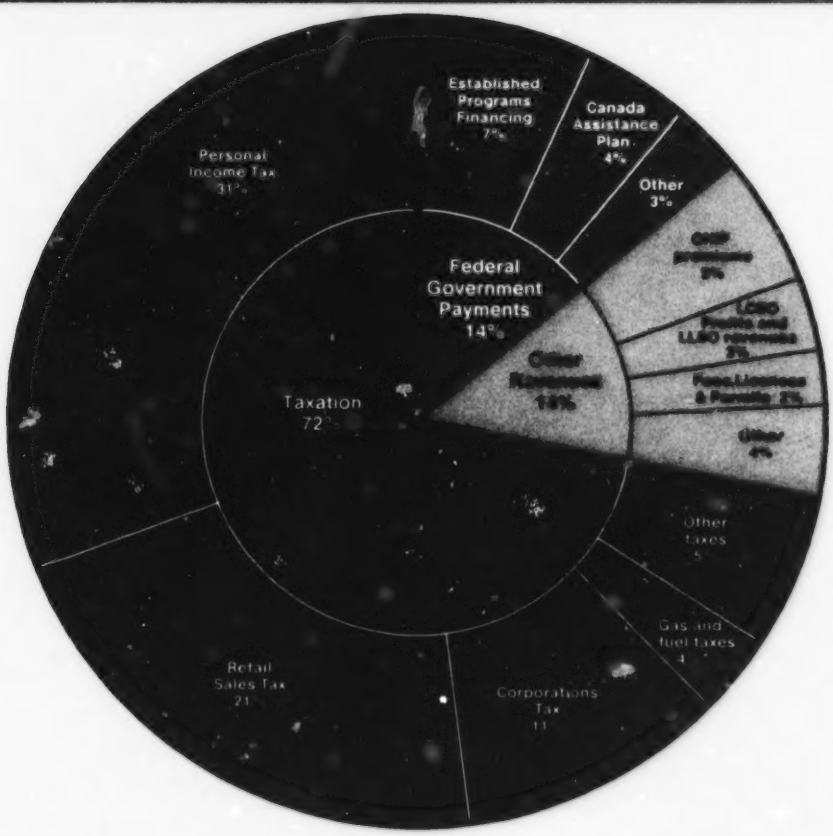
Revenue for 1989 was $37,256 million. The major sources of revenue and their respective percentages are shown in Chart 9. A comparison against the original Budget is shown in Table 1.

Taxation

Personal Income Tax of $11,687 million was $1,065 million above the original forecast and reflects larger than anticipated federal adjustments to current and prior years' entitlements, particularly for the 1987 tax year. This increase was partially offset by a $251 million decrease in federal payments under the Established Programs Financing arrangement.

The exceptional strength of the housing market resulted in an increase of $134 million in revenue from Land Transfer Tax. This increase was partially offset by lower revenues of $106 million in Corporations Tax.

Chart 9
Sources of revenue



Payments from the Government of Canada

Total payments of $5,113 million were $214 million below the Budget estimate.

Established Programs Financing payments decreased by $251 million from the Budget forecast, partially offsetting higher payments for Personal Income Tax. Canada Assistance Plan payments increased by $37 million, reflecting higher Provincial social assistance spending which is cost-shared with the federal government.

Other revenue

Non-taxation revenues were $7 million below the original Budget plan. LCBO profits and LLBO revenues declined by $56 million and $16 million respectively, mainly due to lower consumption levels. Lottery profits increased by $20 million primarily as a result of increased ticket sales in the latter part of the year.

Taxation:				
Personal income tax	10,622		+ 1,065	
Retail sales tax	7,814		-39	
Corporations tax	4,329		-106	
Other	3,098		+ 214	
		25,863		+ 1,134
Government of Canada:				
Established programs financing	3,388		-251	
Canada Assistance Plan	1,460		+ 37	
Other	479			
		5,327		-214
Other Revenue:				
OHIP premiums	1,738		+ 7	
LCBO profits and LLBO revenues	1,116		-72	
Fees, licences and permits	778		+ 10	
Ontario Lottery Corporation	465		+ 20	
Interest on investments, etc.	253		+ 12	
Other	803		+ 16	
		5,153		-7
Total		36,343		+ 913

Expenditure and its Major Components

Total expenditure was $38,735 million. Chart 10 shows expenditure by major category.

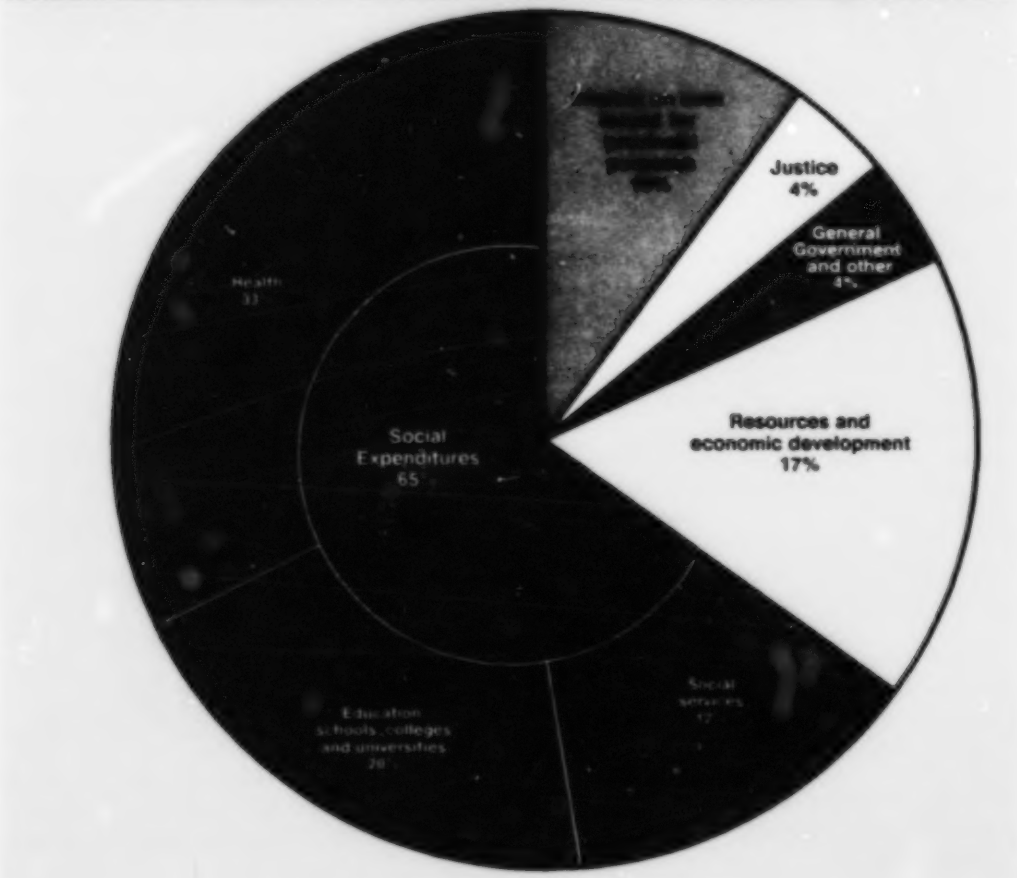
The major components of expenditure are transfer payments, program delivery costs and interest on debt issued for provincial purposes. Graph 11 illustrates the five year trend of these components as a percentage of total expenditure.

Transfer payments

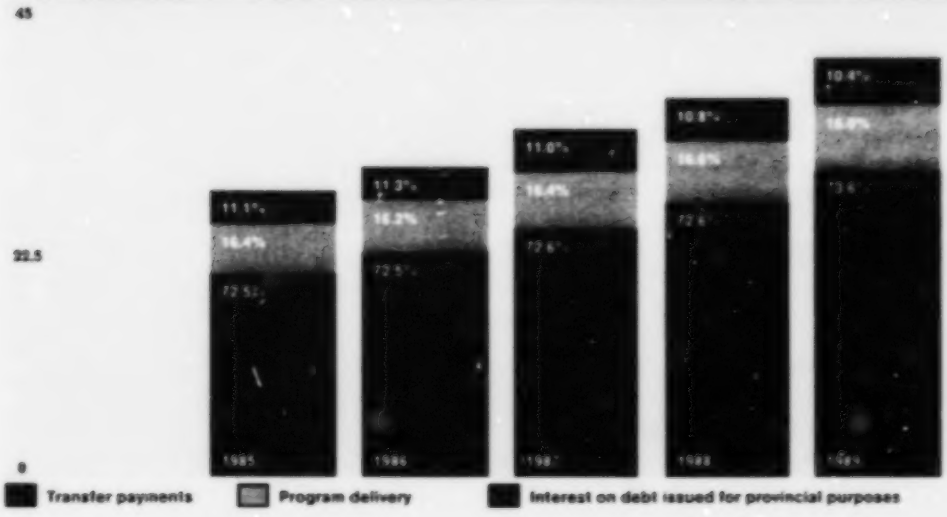
Transfer payments include grants, subsidies and assistance to persons and other government bodies. They totalled $28,519 million, representing 73.6 per cent of expenditure.

Graphs 12, 13 and 14 show the five year trend of transfer payments for health, education and social services.

Chart 10
Expenditure by major category



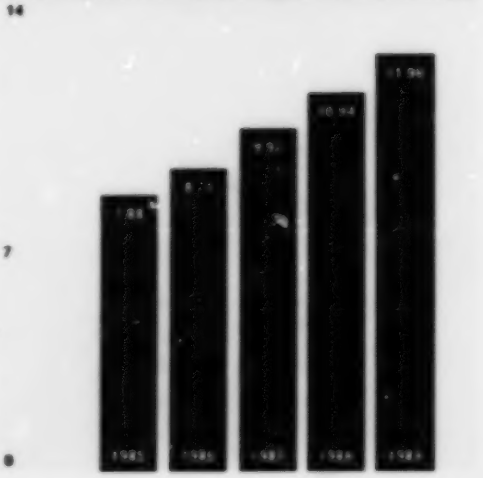
Graph 11
Major components as a percentage of expenditure
$ billions



- **Health transfer payments** of $11,957 million included:

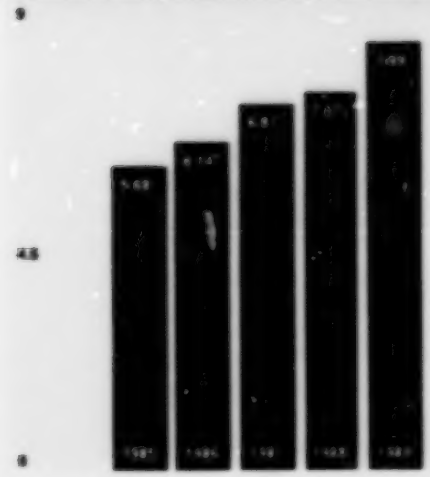
- $6,087 million (51%) paid to hospitals and related facilities for operating and capital purposes;
- $3,937 million (33%) paid to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- $1,332 million (11%) paid to extended and special care facilities, ambulance and other health services; and
- $575 million (4%) in fully subsidized prescription drugs provided to individuals 65 years of age and over.

Graph 12
Transfer payments - Health
$ billions



- **Education transfer payments** amounted to $7,988 million. The Province supports local school boards for primary and secondary schools, and also funds universities, colleges and other post-secondary institutions. These transfer payments include advance payments of 1989-90 entitlements for capital. Major elements were:

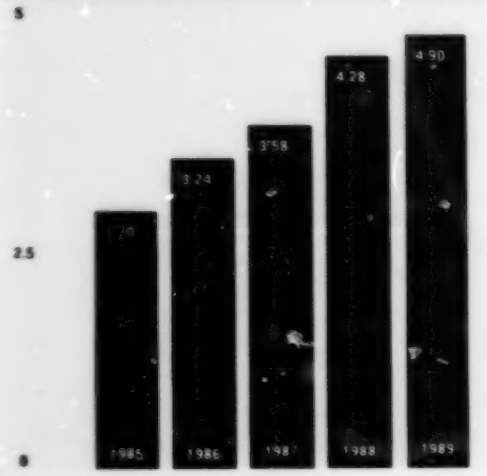
Graph 13
Transfer payments - Education
$ billions



- $4,451 million (56%) paid to local school boards for their operating and capital costs, including $300 million in advance payments for capital entitlements pertaining to 1989-90;
- $2,428 million (31%) paid to the post-secondary education sector for operating and capital costs, including $110 million in advance payments for capital entitlements pertaining to 1989-90; and
- $516 million (6%) paid to match the teachers' contributions to the Teachers' Superannuation and Adjustment Funds and to supplement pensions under these plans.

- **Social services transfer payments** totalled $4,899 million. These payments are made mainly by the Ministry of Community and Social Services. Major expenditures were:
- $2,687 million (55%) paid for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their temporary assistance programs;
- $732 million (15%) paid to support children's programs such as children's aid societies, day nurseries, mental health facilities and young offender's programs; and
- $572 million (12%) paid by the Ministry of Revenue, in the form of property tax grants, sales tax grants and guaranteed annual income payments, all of which benefit Ontario senior citizens.

Graph 14
Transfer payments - Social services
$ billions

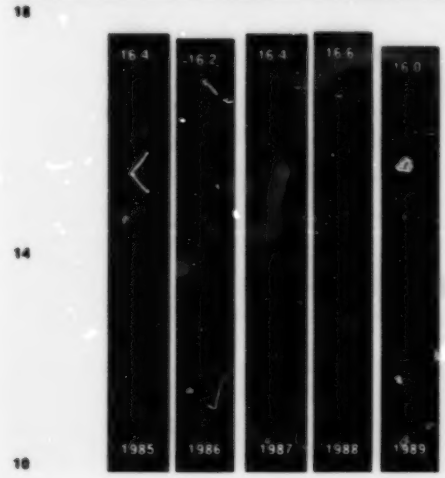


- **Transfer payments to local governments,** designed to assist general municipal programs for purposes other than health, education, and social services totalled $2,717 million, including advance payments of 1989-90 entitlements. Major elements were:
- $1,282 million paid to municipalities in unconditional grants, which include advance payments of $413 million;
- $685 million paid in subsidies to municipalities for road programs; and
- $336 million paid in capital and operating subsidies to municipalities for transit systems.

Program delivery

Program delivery costs, consisting of salaries and benefits for public servants and other direct operating expenditures, totalled $6,184 million or 16.0 per cent of total expenditures, compared with 16.6% last year. The decline includes the effect of constraints on salaries (2%) and direct operating expenditures (6%).

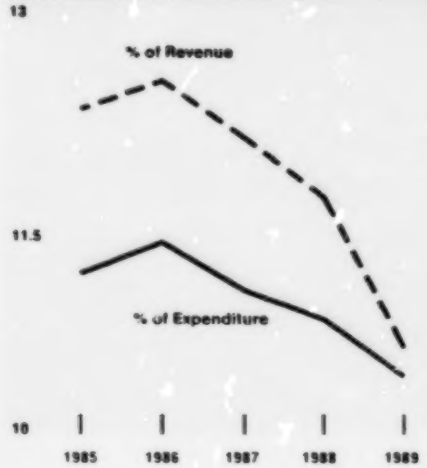
Graph 15
Program delivery as a per cent of total expenditure



Interest on debt issued for provincial purposes

Interest costs associated with debt for provincial purposes, were $4,032 million, or 10.4 per cent of expenditure, down from 10.8 per cent in the previous year. As a percentage of revenue, the interest costs were 10.8 per cent, down from 11.6 per cent in the previous year.

Graph 16
Interest on debt for provincial purposes as a percentage of expenditure/revenue



Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal 1988-89, these investments amounted to $3,268 million up from $2,623 million the year before.

Other Accounts

Other accounts consist of the administration of pension and related benefit funds, lending and investment activities and special purpose accounts. These transactions resulted in net inflows of $1,429 million to the Consolidated Revenue Fund, $358 million over the 1988-89 Budget estimate.

Pension and related benefit funds

These represent employer and employee contributions and interest earnings of the funds held mainly for government employees, members of the Legislature, provincial judges and the Superannuation Adjustment Fund. Net inflows of $906 million, consisted of deposits and interest earnings less payments.

Lending and investment

Loans and advances to, and investments in various Crown agencies and local governments amounted to $106 million. Repayments of loans and advances were $202 million, thereby resulting in a net inflow of $96 million.

Special purpose accounts

Net inflows from these accounts totalled $427 million and consisted mainly of funds deposited by the Province of Ontario Savings Office. The Savings Office has 21 branches in Ontario. They offer interest-bearing chequing deposit accounts and guaranteed investment certificates. All deposits and certificates are fully guaranteed by the Province. Funds, which are surplus to the day-to-day operating needs, are deposited with the Treasurer of Ontario. The balance on deposit at year end was $1,450 million, an increase of $377 million from the previous year, which is largely attributable to the introduction of guaranteed investment certificates during 1988-89.

Pension and related benefit funds - net payments into funds	885	824
Loans, advances and investments in various Crown agencies and local governments - net repayments	54	226
Special purpose accounts - net increase in funds held	132	153
Total (net)	1,071	1,203

Debt

Ontario's Debt

Ontario's debt of $39,014 million includes all obligations of the Province issued for provincial purposes. It comprises debentures, notes and treasury bills of $29,522 million, pension and related benefit fund liabilities of $7,887 million and $1,605 million of other special purpose accounts, mainly deposits from the Province of Ontario Savings Office.

As a result of continued growth of the Ontario economy, and the decline of the deficit as well as debt retirements, Ontario's debt as a percentage of Gross Domestic Product declined to 15.8% in 1988-89 from 16.5% the previous year.

As illustrated on Chart 17, the Province has borrowed mainly from the Teachers' Superannuation Fund (TSF) and Canada Pension Plan (CPP).

The Teachers' Superannuation Commission administers the pension plan of the teachers in Ontario and is currently required to invest funds in provincial securities. Legislation has been introduced which will allow an arm's length Board, responsible for administering the plan and the fund, to invest in market securities. In 1988-89, the Province borrowed $1,620 million from the TSF which brought the total Provincial debt to the Fund to $13,093 million.

The amount of CPP funds offered to Ontario is based on the proportion of total contributions made by Ontario residents to the plan. In 1988-89 Ontario did not borrow from CPP for its own purposes and repaid $412 million, thus reducing Ontario's own purpose CPP debt to $13,981 million.

Ontario Hydro

The Province also borrows on behalf of Ontario Hydro in the United States and from Canada Pension Plan. The proceeds advanced to Ontario Hydro are secured by bonds bearing like terms and conditions to the securities issued by Ontario. Of the $7,789 million outstanding at March 31, 1989, $5,692 million (U.S. $4,770 million) has been borrowed in the United States and $2,097 million from CPP. In addition, securities issued by Ontario Hydro are guaranteed by the Province. As at March 31, 1989 they represented a contingent liability of $19,259 million.

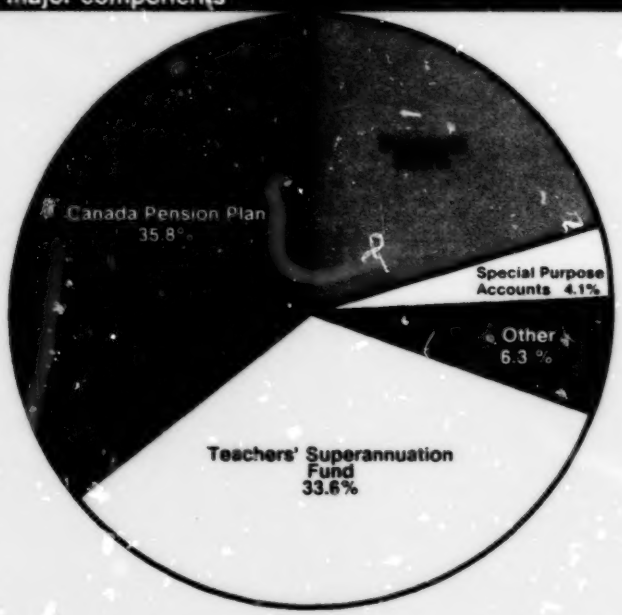
Ontario's Consolidated Public Sector Debt

A broad measure of public sector debt in Ontario is presented in Table 3 and includes:

- Ontario's debt issued for provincial purposes;
- Ontario's liabilities to pensions and special purpose accounts;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province; and
- an estimate of other public sector debt (in the form of bonds, debentures, and notes excluding sinking funds and own holdings) incurred by provincial agencies and by the local government, university and hospital sectors.

The above approach to debt highlights the effects of Ontario's policy of centralized public sector financing through which the Province's own financial base has been used to substantially fund the local government sector and its agencies. The Province carefully controls the use of the provincial guarantee, restricting it primarily to borrowings by Ontario Hydro.

Chart 17
Ontario's debt - major components



Ontario's Debt:		
Debt incurred for Provincial purposes		28,322
Other:		
- Pensions and related benefit funds	6,981	
- Special Purpose Accounts	1,178	8,159
		36,981
Ontario Hydro Debt:		
Debt incurred by the Province		7,541
Debt guaranteed by the Province*		17,487
		25,028
Other Public Sector Debt (estimated)		4,025
Total Ontario's Consolidated Public Sector Debt		66,034

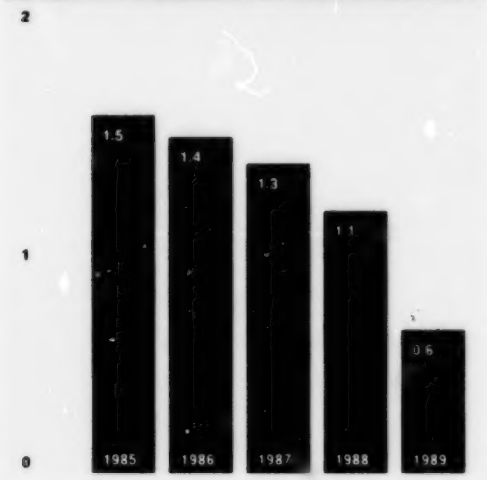
* The guaranteed debt excludes bank loans and is net of debt accumulated by Ontario Hydro for early retirement, which in 1989 was $1,075 million (1988 $1,062 million).

Selected Financial and Economic Statistics

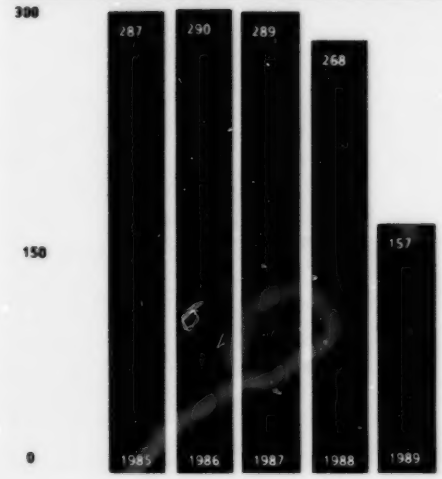
Revenue	32,453	29,544	26,240	23,893
Expenditure	34,942	32,178	28,854	26,452
Deficit	2,489	2,634	2,614	2,559
Other accounts (net)	1,203	1,286	1,009	857
Net cash requirements	1,286	1,348	1,605	1,702
Provincial debt transactions (net)	901	1,194	2,102	2,090
Ontario Hydro debt transactions (net)	(245)	(403)	(17)	719
Ontario's debt/liabilities				
Debt incurred for - Provincial purposes	28,822	27,921	26,695	24,593
Other	8,159	7,182	6,209	5,448
Ontario's debt/liabilities	36,981	35,103	32,904	30,041
Ontario Hydro - debt incurred by the Province	7,541	7,786	8,189	8,206
Contingent liabilities (mainly Ontario Hydro)	18,595	17,603	15,963	14,220
Gross domestic product at market prices[1]	224,674	205,247	185,944	171,499
Personal income (Ontario) per capita[1] (June 1 population) (in dollars)	20,200	18,792	17,623	16,422
Ontario's debt/GDP (%)	16.5	17.1	17.7	17.5

[1] Gross domestic product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

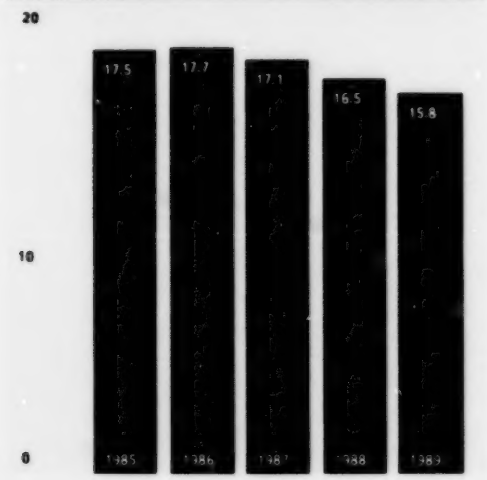
Graph 18
Deficit as a percentage of GDP



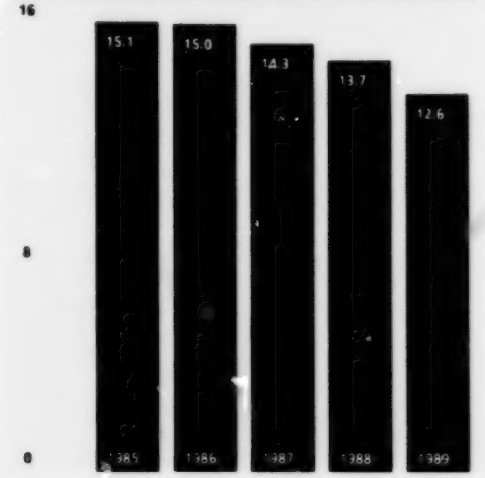
Graph 19
Deficit (dollars per capita)



Graph 20
Ontario's debt as a percentage of GDP



Graph 21
Months of revenue to repay Ontario's debt



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Summary of Significant Accounting Policies

Reporting entity

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province, are designed to accommodate reporting to the Legislature and, accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. Activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

Basis of accounting

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended and for certain non-cash transactions. Cash inflows, however, are closed at March 31 for cash received.

Loans and advances are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of their underlying security has diminished, or when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of $1.

In accordance with legislation, the pension and related benefit funds are liabilities within the Consolidated Revenue Fund and include employee and government's matching contributions, interest on the fund balances and any unfunded liability amortization amounts. The funds' balances are reduced by payments to pensioners.

The Province's financial transactions are recorded under four categories:

Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and shared-cost programs, and income from investments.

Expenditures

Expenditures on government programs include transfer payments to individuals, local governments and institutions, interest on debt issued for provincial purposes, salaries and employee benefits, payments for goods and services, and the acquisition and construction of fixed assets. Fixed asset costs are charged to expenditure when acquired or constructed since they are not considered to differ from any other service to the public.

Other accounts

Other accounts consist of the lending, investment and special account administration activities of the Government, including loans, advances and investments, pension and related benefit funds, and special purpose accounts. These accounts are assets or liabilities.

Loans, advances and investments

These are the lending and investment activities in various Crown corporations, agencies and local governments.

Pension and related benefit funds

Pension and related benefit funds which are for government employees, members of the Legislature and Provincial judges comprise employee and employer contributions, interest earnings, and amortization payments less payments made.

Special purpose accounts

Special purpose accounts are generally established by legislation and administered by the Province. Deposits with the Province of Ontario Savings Office, the Pits and Quarries Control Fund and the Motor Vehicle Accident Claims Fund are major examples.

Financing

Financing consists of debt transactions and the net change in cash and temporary investments.

Debt transactions are the borrowing and repayment activities for the Province's own purposes.

Financial assets, accumulated deficit and liabilities

Financial assets

Financial assets are claims by the Consolidated Revenue Fund on other parties and arise from cash transactions.

Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and its financial assets. The year-to-year change in the accumulated deficit is the amount by which expenditures are greater or less than revenues.

Liabilities

Liabilities are established claims by other parties on the Consolidated Revenue Fund.

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at face value. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and other special purpose accounts.

Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown. Contingent liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end rates of exchange.

Ontario Hydro

Advances to, and debt incurred for, Ontario Hydro relate to amounts borrowed on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately. Both the advances and debt incurred are stated in Canadian dollars using the year-end rate of exchange.

Statement of Financial Transactions

Revenue	36,343		32,453
Expenditure	37,887		34,942
Deficit	1,544		2,489
Other accounts (net)			
Pension and related benefit funds	885		824
Loans, advances and investments	54		226
Special purpose accounts	132		153
Total other accounts	1,071		1,203
Net cash requirements	473		1,286
Financing			
Debt transactions			
Proceeds of loans net of retirements	755		901
(Increase)/decrease in cash and temporary investments	(282)		385
Total financing	473		1,286

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Revenue

Taxation		
Personal income tax	10,622	9,859
Retail sales tax	7,814	6,305
Corporations tax	4,329	3,600
Gasoline tax	1,214	1,035
Tobacco tax	776	639
Land transfer tax	500	471
Fuel tax	325	291
Mining profits tax	45	13
Reciprocal taxation	93	91
Race tracks tax	80	75
Public utilities income tax	50	90
Other	15	11
	25,863	22,480
Other revenue		
Ontario Health Insurance Plan premiums	1,738	1,723
Profits from Crown corporations and boards		
Liquor Control Board of Ontario	701	651
Ontario Lottery Corporation	465	470
Vehicle registration fees	513	506
Liquor Licence Board of Ontario revenues	415	351
Other fees and licences	265	249
Interest on investments, loans and advances	253	295
Royalties	208	177
Utility service charges	120	145
Sales and rentals	110	96
Fines and penalties	125	104
Miscellaneous	240	222
	5,153	4,989
Government of Canada		
Established Programs Financing	2,925	2,773
Extended Health Care Services	463	436
Canada Assistance Plan	1,460	1,305
National Training Agreement	102	131
Bilingualism Development	57	50
Young Offenders	64	64
Vocational Rehabilitation	32	33
Other	224	192
	5,327	4,984

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Expenditure

Ministry		
Agriculture and Food	567	566
Attorney General	405	382
Office Responsible for Native Affairs	5	2
Citizenship	46	39
Colleges and Universities	2,583	2,391
Community and Social Services	4,308	3,775
Consumer and Commercial Relations	152	135
Correctional Services	423	402
Culture and Communications	253	227
Education	4,799	4,447
Energy	45	43
Environment	426	385
Financial Institutions	36	31
Government Services	643	542
Health	12,689	11,529
Housing	468	333
Industry, Trade and Technology	171	173
Technology Fund	100	20
Intergovernmental Affairs	9	9
Labour	126	107
Office Responsible For Women's Issues	18	17
Legislative and Executive Offices	12	10
Management Board of Cabinet	40	37
Municipal Affairs	976	922
Natural Resources	558	552
Northern Development and Mines	305	239
Office for Disabled Persons	7	6
Office Responsible for Senior Citizens Affairs	9	5
Revenue	830	786
Skills Development	408	385
Solicitor General	450	405
Tourism and Recreation	184	169
Transportation	2,078	1,914
Treasury and Economics	29	28
Economic Development Projects	50	45
Interest on debt issued for provincial purposes	4,080	3,771
Other	99	113
Expenditure savings and constraints (note 11)	(500)	

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Other Accounts

Pension and related benefit funds		
DEPOSITS TO:		
Public Service Superannuation Fund	878	789
Superannuation Adjustment Fund	378	345
Other	30	24
	1,286	1,158
PAYMENTS FROM :		
Public Service Superannuation Fund	237	206
Superannuation Adjustment Fund	153	119
Other	11	9
	401	334
Net deposits to pension and related benefit funds	885	824
Loans, advances and investments		
REPAYMENTS BY:		
Corporations, boards and commissions		
Development Corporations	45	71
Other	8	152
Local governments	33	43
School boards	40	45
Water treatment and waste control facilities	25	34
Other loans, advances and investments	24	25
	175	370
PAYMENTS TO:		
Corporations, boards and commissions		
Development Corporations	75	103
Water treatment and waste control facilities	23	20
Local governments	22	20
Other loans, advances and investments	1	1
	121	144
Net repayments of loans, advances and investments	54	226

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Other Accounts
(continued)

Special purpose accounts (net)		
Province of Ontario Savings Office	120	161
Other	12	(8)
Net deposits to special purpose accounts	132	153

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Debt Transactions

Proceeds of loans		
Teachers' Superannuation Fund	1,675	1,620
Canada Pension Plan Investment Fund		42
Total proceeds of loans	1,675	1,662
Retirements of loans		
Teachers' Superannuation Fund		176
Canada Pension Plan Investment Fund	420	376
Other debentures and notes	500	209
Total retirements of loans	920	761

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Financial Position

Financial assets	
Cash and temporary investments (note 1)	1,594
Investments in water treatment and waste control facilities (at cost less recoveries) (note 2)	468
Loans to local governments	448
Advances to corporations, boards and commissions (note 3)	383
Other loans	68
	2,961
Advances to Ontario Hydro, secured by bonds (note 4)	7,541
Total financial assets	10,502
Accumulated deficit	34,020
	44,522
Liabilities	
Debt incurred for provincial purposes (note 5)	28,822
Pension and related benefit funds (note 6)	6,981
Deposits with the Province of Ontario Savings Office	1,073
Special purpose accounts	105
Total liabilities for provincial purposes	36,981
Debt incurred for Ontario Hydro (note 5)	7,541
	44,522
Contingent liabilities (note 8)	18,595

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1989 financial statements of the Province of Ontario, including the notes are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 20, 1989.

M. Mogford

M. MOGFORD, Deputy Treasurer of Ontario and Deputy Minister of Economics

C. Moszynski

C. MOSZYNSKI, C.G.A., Acting Director, Financial Information and Accounting Policy Branch

Notes to the Financial Statements

(all tables in millions of dollars)

1. Cash and temporary investments

Temporary investments are mainly marketable, short-term securities issued or guaranteed by Canadian chartered banks, provincial and federal governments and are recorded at cost.

2. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering $393 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to $26 million at March 31, 1989 (1988 $36 million), was applied as a reduction of the investment account.

3. Advances to corporations, boards and commissions

	1989	1988
Development Corporations	$290	$290
Other	80	93
	$370	$383

The Province advances funds for the lending activities carried out by the Development Corporations. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to $29 million in 1989 (1988 $19 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to $13 million in 1989 (1988 $23 million).

4. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1989, the bonds consist of U.S. $4,770 million (1988 U.S. $4,888 million), and Canadian $2,067 million (1988 Canadian $1,508 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at $5,692 million (1988 $6,033 million), the Canadian dollar equivalent using the exchange rate in effect at year-end. Transactions during the year are as follows:

	1989	1988
Proceeds of loans	$589	$389
Retirements of loans	(145)	(280)
Net proceeds/retirements	444	109
Foreign exchange - (gain) loss	(196)	(354)
Net increase/(decrease) in debt incurred for Ontario Hydro purposes	248	(245)
Related advances, interest and recoveries		
Advances to Ontario Hydro	589	389
Interest	838	884
Recovery of interest and loan retirements	(983)	(1,164)
Net advances	444	109
Foreign exchange - (gain)/loss	(196)	(354)
Net related advances, interest, foreign exchange - (gain)/loss and recoveries	$248	$(245)

5. Debt

Debentures, notes and treasury bills for provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

For Provincial purposes

Years of repayment/ maturity March 31	1989	Weighted average interest rate %	1988	Weighted average interest rate %
1989			$1,570	
1990	$1,105		454	
1991	485		486	
1992	508		508	
1993	1,001		1,001	
1994	942			
1-5 years	4,041	8.05	4,019	7.82
6-10 years	5,656	9.04	5,148	8.68
11-15 years	8,537	11.87	7,690	11.36
16-20 years	9,276	12.15	10,097	12.28
21-25 years	1,931	10.88	1,772	10.78
26-30 years	71	9.94	74	9.82
31-35 years	10	10.32	22	10.22
	$29,522	10.82	$28,822	10.67

Payable to:	1989	1988
Minister of Finance of Canada		
Canada Pension Plan Investment Fund	$13,981	$14,393
Other	333	342
Teachers' Superannuation Fund	13,093	11,473
The Ontario Municipal Employees Retirement Fund	1,293	1,293
Public Investors	822	1,321
	$29,522	$28,822

For Ontario Hydro

Years of repayment/ maturity March 31	1989 Canadian	United States	Total	Weighted average interest rate %	1988 Total	Weighted average interest rate %
1990	$	$239	$239		$247	
1991		52	52		54	
1992		354	354		486	
1993		232	232		240	
1994						
1-5 years		877	877	13.40	1,027	13.54
6-10 years		605	605	9.52	485	10.19
11-15 years	1,000	666	1,666	12.12	1,613	11.89
16-20 years	1,097	2,297	3,394	9.35	2,286	8.91
21-25 years		1,247	1,247	13.52	2,010	11.96
26-30 years					120	11.75
	$2,097	$5,692	$7,789	11.06	$7,541	11.12

Payable to:	1989	1988
Minister of Finance of Canada		
Canada Pension Plan Investment Fund	$2,097	$1,508
Public Investors	5,692	6,033
	$7,789	$7,541

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is $196 million ($354 million in 1988).

As explained in Note 4, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

6. Pension and related benefit funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province represent all the assets of these plans.

	1989	1988
Public Service Superannuation Fund	$5,787	$5,145
Superannuation Adjustment Fund	1,989	1,740
Legislative Assembly Retirement Allowances Account	42	39
Provincial Judges Benefits Fund	51	44
Other	18	13
	$7,887	$6,981

The latest actuarial report of the Public Service Superannuation Fund as at December 31, 1985, showed a surplus of $109.9 million.

The Superannuation Adjustment Fund provides annual inflation adjustments to recipients of pensions payable from the Public Service Superannuation Plan, the Teachers' Superannuation Plan and the Retirement Pension Plan of the Ryerson Polytechnical Institute in accordance with the provisions of the Superannuation Adjustment Benefits Act. Separate accounts are maintained for each pension plan. Members include deferred annuitants as well as those in receipt of a pension.

The superannuation adjustment benefits are not fully funded as permitted by the Pension Benefits Act of 1987. In order to ensure that benefits will be fully funded the government introduced legislation in June 1989, which, if passed, will:

- combine the teachers' and public servants' adjustment funds with the respective basic funds;
- increase the matching contribution rates by one percent of salary to cover future benefits earned;
- commit the government to pay for the past deficits in the combined funds;
- amortize the past deficits with payments over 40 years that are based upon a constant percentage of payroll;
- require that any future deficiencies, determined by subsequent actuarial valuations, be amortized as prescribed by the Pension Benefits Act; and
- permit fund investments in market securities under the responsibility of arm's length boards.

A preliminary estimate on an actuarial basis, indicates that past deficits of the combined pension funds are $5.7 billion ($4.0 billion for the teachers' pension plan and $1.7 billion for the public service pension plan).

An actuarial review of the Legislative Assembly Retirement Allowances Accounts as at March 31, 1988, showed a deficit of $12,109. The Province made this payment as at March 31, 1989.

7. Teachers' Superannuation Fund

The Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund, which is administered by the Teachers' Superannuation Commission. Funds not required to pay benefits, are invested in the debentures of the Province in accordance with Section 72 of the Teachers' Superannuation Act. The Province is also committed to paying any deficiency in the Fund. As described in Note 6, the Province introduced legislation in June 1989 to combine the Fund with the respective Superannuation Adjustment Fund.

The latest actuarial report as at December 31, 1987 showed a surplus of $33 million.

8. Contingent liabilities

	1989	1988
Obligations guaranteed by the Province:		
Debentures/bonds and notes		
Ontario Hydro	$19,259	$17,487
Loans guaranteed	852	577
Other	448	531
	$20,559	$18,595

Claims against the Crown:

There are claims outstanding against the Crown of which eight are for amounts over $50 million each, arising from legal action, either in progress or threatened, in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, settlements resulting therefrom will be recorded as expenditures when paid.

9. Expenditure by standard account classification

	1989	1988
Salaries and wages	$ 3,093	$ 2,919
Employee benefits	512	489
Transportation and communication	329	314
Services	1,396	1,342
Supplies and equipment	687	651
Acquisition/construction of physical assets	507	436
Transfer payments	28,564	25,410
Interest on debt issued for provincial purposes	4,032	3,771
Other transactions	149	169
Less: recoveries	(534)	(559)
Total expenditure	$38,735	$34,942

10. Change in accounting policy

As described in the Summary of Significant Accounting Policies, cash inflows are now closed at March 31 for cash received rather than for cash received and in transit as reported in previous years. The impact of this change on revenue reported is a decrease of $123 million in 1988-89.

11. Budget figures

The budget figures in the financial statements are based on data from the 1988 Ontario Budget which was tabled by the Treasurer of Ontario in the Legislative Assembly on April 20, 1988.

The Expenditure savings and constraints figure in the Statement of Expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

12. Comparative figures

The 1988 comparative figures have been reclassified where necessary to conform with the 1989 financial statement presentation.

Provincial Auditor's Opinion

I have examined the statement of financial position of the Province of Ontario as at March 31, 1989 and the statements of financial transactions, revenue, expenditure, other accounts and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, except for the change in accounting for cash inflows as explained in Note 10 to the financial statements, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph indicate that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than $75 million.

D.F. Archer, F.C.A.,
Provincial Auditor

Toronto, Ontario
July 20, 1989.